MERSEYSIDE RECYCLING & WASTE AUTHORITY

MERSEYSIDE... A PLACE WHERE NOTHING IS WASTED

Risk Management Strategy

1. INTRODUCTION

This strategy supports the Authority's Risk Management Policy Statement which defines risk management as, 'the culture, processes and structures that are directed towards a planned and systematic approach to the potential opportunities and threats facing the Authority.'

Risk management will be embedded within the daily operations of the Authority, from strategy and policy formulation through to business planning, general management and operational processes. It will also be applied where the Authority works in partnership with other organisations to ensure that partnership risks are identified and managed appropriately.

Through understanding risks, decision-makers will be better able to evaluate the impact of a decision or action on the achievement of the Authority's objectives.

Risk management will not focus upon risk avoidance, but on the identification and management of an acceptable level of risk. It is the Authority's aim to proactively identify, understand and manage the risks inherent in our services and associated with our plans, policies and strategies, to support responsible, informed risk taking and as a consequence, aim to improve value for money. The Authority will not support reckless risk taking.

The Authority will seek to learn from other organisations where appropriate and to keep up to date with the best practice in risk management. Annual reviews of the Strategy and Framework will be undertaken to assess options for further alignment with practices adopted by partners.

2. FRAMEWORK

The principal elements of the Authority's Risk Management Strategy are as follows:

- Risk Management Objectives
- Roles and Responsibilities
- Partnership and Shared Risks
- Risk Analysis and Evaluation
- Risk Appetite
- Risk Registers
- Governance

3. RISK MANAGEMENT OBJECTIVES

- Ensure that risks that could prevent the Authority achieving its objectives are identified and appropriately managed;

- Ensure that risk management is clearly and consistently applied throughout the Authority;

- Raise awareness of the principles and benefits involved in the risk management process;

- Inform policy and operational decisions through the identification of risks and their likely impact;

- Ensure compliance with statutory requirements;

- Ensure safety and wellbeing of staff, Members and customers.

These objectives will be achieved by;

- Maintaining documented risk management procedures;

- Considering risk management implications in reports and decision-making processes;

- Maintaining corporate and project-based risk registers that identify and rank all significant risks facing the Authority, which will assist the Authority achieve its objectives through pro-active risk management.

4. LEADERSHIP, ROLES AND RESPONSIBILITIES

The key roles and responsibilities which enable the Authority to manage risk effectively are as follows:

Authority
The Authority will:

- Approve the Authority's Risk Management Strategy and Framework
- Consider risk management implications when making decisions

Audit Committee
The Audit Committee will:

- Maintain an independent oversight of the risk register and risk management issues;
- Undertake reviews of specific areas of risk management activity or initiatives where required;
- Review and approve the Authority's Annual Governance Statement.

Primary Assurance Group (PAG)
Chaired by the Director of Finance, the Primary Assurance Group will:

- Be responsible for the oversight of risk management activities of the Authority
- Provide the Authority and Audit Committee with assurance that the Authority's corporate business risks are being actively and appropriately managed
- Review and keep up to date the Corporate Risk Register
- Ensure that the most appropriate and cost-effective measures are adopted to avoid, minimise and control those risks in accordance with 'Best Value' principles
- Encourage the development of contingency plans

Senior Leadership Team (SLT)
The Senior Leadership Team will:

- Oversee the corporate approach to risk management
- Identify, assess and capture improved performance and value for money through risk and opportunity management
- Identify, monitor and manage the Authority's corporate risks and opportunities
- Demonstrate commitment to the embedding or risk management across the organisation

Service Managers
Service Managers will:

- Identify and assess new risks and opportunities
- Maintain the Authority's operational risk registers in relation to their areas of responsibility, identifying and reporting any significant risk management issues affecting their service area.
- Ensure that an effective process is in place to manage risks faced by the service.

- Identify and analyse risks for impact and likelihood and introduce risk control measures
- Identify initiatives that could reduce the impact and/or likelihood of risks occurring.
- Identify initiatives that could increase the likelihood of an opportunity being realised.
- Ensure that risk register entries and controls are accurate and up to date.
- Monitor the progress of planned actions on a quarterly basis to ensure that aims are achieved.

All employees
All employees, within their given areas of responsibility and work, will:

- Understand risks and regard their management as part of their everyday activities, including the identification and reporting of risks and opportunities which could affect the Authority.
- Assist with risk assessments for their areas of work
- Support and participate in risk management activities.

Internal Audit
The Internal Audit team will:

- Independently assess the Authority's risk management arrangements
- Review the adequacy of procedures by departments to assess, review and respond to risks
- Review the effectiveness of the Authority's system of internal control
- Consider the content of the risk registers when preparing the Annual Audit Plan

5. PARTNERSHIP AND SHARED RISKS

The nature of the Authority's business requires effective partnership working with those organisations which deliver services on its behalf, organisations that rely on the services provided by the Authority and those that have a shared or mutual reliance.

This strategy recognises that where shared risk exists which could have a significant impact on the delivery of the Authority's corporate objectives, these risks should be recognised and managed effectively.

To support this, where appropriate:

- work directly with partner organisations (agreeing contracts or service level agreements, managing/monitoring performance or working together to deliver services)
- ensure there is a clear understanding between partners of the shared risks, ownership of risks and how they will be managed
- where appropriate, establish joint risk registers which set out clear lines of responsibility and how risks will be monitored, reviewed and managed
- seek assurance that partners' risk management/corporate governance arrangements are adequate as part of the Authority's Annual Corporate Governance Assessment.

6 RISK ANALYSIS & EVALUATION

This will involve consideration of all potential risks facing the Authority, with risks broken down into corporate risks, which could impact on the achievement of the Authority's objectives, and operational risks which could impact upon service delivery or the achievement of service objectives.

Identified risks will be assessed based on the likelihood of the risk materialising and the impact to the Authority should the risk materialise. This will include an assessment of both the inherent risk i.e. the level of risk prior to mitigating actions and controls being applied and the residual risk i.e. the level of risk considering the mitigating actions and controls in place. The Authority's specified risk matrix will be used to score each risk.

The process for this is set out in Appendix 1.

7 RISK APPETITE

The Authority will define its risk appetite across designated risk types i.e. economic, reputational, financial, legal, operational, and regulatory. Appropriate mitigating actions and controls will be put in place to ensure that residual risk scores are within the risk appetite for the primary risk type.

8 RISK REGISTERS

The Corporate Risk Register will be approved by the Audit Committee half yearly. Monitoring reports will be provided to the Audit Committee, where required.

Operational Risk Registers will be maintained in individual services and be reviewed as part of the quarterly reporting process. Where an operational risk materialises to a level where it becomes a potential Corporate Risk this will be escalated to the Director of Finance for consideration.

Risks will be allocated a "Risk Owner" who will be responsible for ensuring that the risk is appropriately managed.

9 GOVERNANCE

There will be clear accountability for all risks. This will be achieved by:

- The production of an Annual Governance Statement signed by the Chief Executive and Chair of the Authority at the end of each financial year.

- Making the Authority's risks and risk management process open to regular Internal Audit and external inspections (e.g. by the Authority's external auditors).

The Audit Committee will be responsible for monitoring the Authority's risk management arrangements.

An annual review of this Strategy will be undertaken to ensure it remains current and up to date and reflects current best practice in risk management. Recommendations will be made to the Audit Committee if it is considered that any improvements or amendments are required.

Members will be briefed to ensure they are aware of significant risks and any improvements in controls which are proposed.

Directors will update their operational risk registers as part of the Business Planning Process.

To ensure that risks are identified then these will be reviewed by SLT.

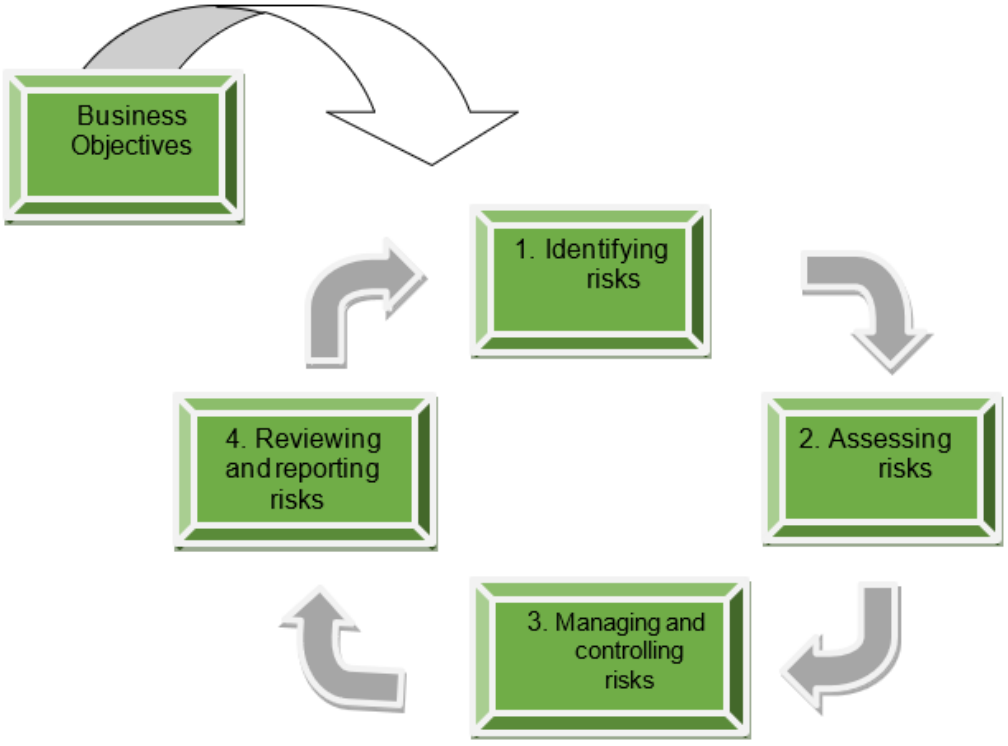
The Internal Audit section will audit the process, to ensure effectiveness across the whole Authority.

APPENDIX 1

RISK IDENTIFICATION ASSESSMENT & EVALUATION

The following four step process is fundamental to good risk management. Figure 1 below shows the four steps and the link to business objectives.

Figure 1: The Four Steps of the Risk Management Cycle



Step 1 - Identifying Risks

The working definition of a risk is:

*"*Risk is something that may have an impact on the achievement of our objectives. This could be an opportunity as well as a threat"

Drivers of risk

The Authority faces risks from both internal and external factors. Understanding this helps us to assess the level of influence we may have over the risk.

There are three main parts to a risk – an **event** that has a **consequence** that leads to an **impact** on the Authority objectives – and it can be measured by estimating the **likelihood** of the event happening and **impact** it may have on the objectives if it does.

It also helps to think of risk being driven by two basic categories **Corporate** and **Operational.** At Corporate levels, the focus is on identifying the key risks to successful

achievements of the Authority's overall objectives. Operational risks are the risks (or opportunities) that are most likely to affect the performance and delivery of business services.

Corporate and operational risk are not mutually exclusive, and a risk may escalate from one to another. They can all be driven by either external or internal factors, or a combination of both.

When identifying the risk, both positive and negative effects need to be considered. This will help with risk taking and exploiting opportunities. Insignificant risks can be ignored, significant risks can be planned for and the costs of taking action can be compared with the price to be paid if adverse events occur.

It will help to use prompts to identify the areas of risk e.g.

Risk	Consequence
Corporate	Doing the wrong things as an organisation, missing opportunities
Operational	Doing the right things in a wrong way (service delivery failure, targets missed)
Financial	Losing monetary resources or incurring unacceptable liabilities
Reputational	The Authority's image, loss of public confidence
Political	Political embarrassment, not delivering local or national policies
Partnerships	The risks/opportunities the Authority is exposed to as part of a partnership
Project	The risks/opportunities the Authority is exposed to as part of a project
Legal/Regulatory	Claims against the Authority, non-compliance
Information	Loss or inaccuracy of data, systems or reported information
Residents	Understanding their needs, delivery of services
Environmental	Things outside control, environmental impact
People	Risks associated with employees, management

Using the categories above, it is important to consider the things that could prevent or hinder a team from achieving its business objectives. There should not be too much focus on the categories, or what risk fits under which category, they are just a general guide to assist.

The thoughts and ideas then need to be grouped into common themes and developed into the actual risk.

There should be, where possible, three parts to the risks **Event – Consequence – Impact**

This will ensure that focus and action is placed on the vent. Typical risk phrasing could be

Loss of ….
Failure of ….
Failure to ….
Lack of ….
Development of

leads to …… … resulting in ……

For example, a service manager may identify the failure of a waste transfer station e.g. due to a crane failure, as a risk. Developed around event, consequence, impact to;

Failure of the WTS due to a crane failure **(the event)** could lead to unacceptable delays in depositing refuse **(the consequence)** resulting in public health issue and loss of reputation **(the impact).**

Step 2 – Assessing Risks

Once a list of risks has been established, the next step is to assess those risks in terms of the likelihood that they will occur and the impact if they do. This provides an inherent risk score that will help identify the most serious risks before any controls have been applied. Decisions can then be made about the significance of those risks and how or whether they should be addressed.

The Authority has agreed criteria for the levels of likelihood and impact for risks and criteria for opportunities should in tables 1 and 2 below.

Consideration should be given to each of the identified risks, from Step 1, and using the criteria in the table, assess the risk in terms of **likelihood** that it will occur and **impact** on the Authority if it should occur.

There should be a focus on the description when assessing the level of likelihood and impact and the number rating should be used to summarise the descriptive information.

When both the risk likelihood and impact have been assessed, the likelihood score should be multiplied by the impact score – this will give the inherent risk score. This is the score used to identify which risks are the most serious, allowing decisions to be made about the significance of those risks to the Authority and how, or whether they should be addressed.

APPENDIX 1

Table 1 – Likelihood – Description and definitions

Rating	Score	Indicative Guideline	
		Threat	**Opportunity**
Very Likely	4	• Regular occurrence • Circumstances frequently encountered	Favourable outcome is likely to be in short term (within 1 year)
Likely	3	• Likely to happen at some point in the next 3 years • Circumstance occasionally encountered	Reasonable prospects of favourable outcome in short term (within 1 year)
Possible	2	• Only likely to happen once every 3 or more years • Circumstances rarely encountered	Some chance of favourable outcome in medium term (up to 3 years)
Remote	1	• Has never happened before • Circumstance never encountered	Little chance of a favourable outcome in short or medium term (up to 3 years)

Table 2 – Impact – Description and definitions

Rating	Score	Indicative Guideline	
		Threat	**Opportunity**
Critical	4	• Major loss of service for more than 5 days • Severe disruption to the Authority and its residents affecting the whole Authority • Financial loss > £1m • Loss of life, intervention by HSE • National news coverage • Likely successful judicial review or legal challenge of Authority decision • Major environmental damage	Major improvement in service delivery Income generation/savings >£1,000,000 Positive national press, national award or recognition Noticeable widespread environmental improvements

APPENDIX 1

Rating	Score	Indicative Guideline	
		Threat	**Opportunity**
Serious	3	• Loss of service for 3 to 5 days • Serious disruption, ability to service residents affected across several service areas of the Authority • Financial loss £0.5m to £1m • Extensive/multiple injuries, intervention by HSE • Local adverse news item/ professional press item • Likely judicial review or legal challenge of service specific decision • Serious damage to local environment	Noticeable improvement to residents in service delivery, quality and cost Income generation/savings >£100,000 Sustained positive recognition and support from local press Noticeable improvement to local environment
Significant	2	• Loss of service for 1 -3 days • Noticeable disruption, some residents would be affected across a service area of the Authority • Financial loss £10,000 - £100,000 • Severe injury to an individual / several people • Local news/minor professional press item • Moderate damage to local environment	• Slight improvement in internal business processes. No noticeable change in service delivery or resident service. • Income generation/savings > £10,000 • Positive support from local press • Minor improvement to local environment
Insignificant	1	• Brief disruption to service less than 1 day – minor or no loss of resident service • Financial loss > £10,000 • Minor / no injuries • Minimal news/press impact • Affects single team only • Minor/ no damage to local environment	• No noticeable improvement to service delivery or internal business processes • Income generation/ savings up to • £10,000 • No press coverage Insignificant/ no environmental improvements

When the inherent risk score has been calculated, the next step is to show the level of the risks and make decisions about the significance of those risks to the Authority and how they will be managed.

APPENDIX 1

Table 3 Risk Prioritisation Matrix and Risk Rating

		Impact			
		Minor (1)	Significant (2)	Serious (3)	Major (4)
Likelihood	Very Likely (4)	4	8	12	16
	Likely (3)	3	6	9	12
	Unlikely (2)	2	4	6	8
	Remote (1)	1	2	3	4

Overall Risk Rating	
9-16	High
6-8	Moderate
3-5	Low
1-2	Very Low

Risks need to be managed within the Authority's risk appetite. Whatever the risk score, mitigating controls and actions need to be applied to manage the risk down.

Risks identified will often have risk factors that fall within more than one risk type, in these cases the risk type deemed to present the highest level of risk should be designated as the Primary Risk Type.

Step 3 Managing and Controlling Risks

When all the risk and opportunities have been identified and assed for likelihood and impact, there needs to be agreement on who will own the risk and who the risk/ opportunity will be managed, controlled or exploited.

There are three questions that will help?

- Can the likelihood of occurrence be reduced?
- Can the impact be reduced?
- Can the consequences of the risk be changed?

Tolerating the risk. An organisation that recognises the value of risk management may accept that it might be appropriate to continue with an "at risk" activity because it will open up greater opportunities for the future, or perhaps limited things can be done to mitigate a risk.

These risks must be monitored, and contingency plans should be put in place in case the risks occur.

Treating the risk. This is the most widely used approach. The purpose of treating a risk is to continue with the activity which gives rise to the risk, but to bring the risk to an acceptable level by taking action to control it in some way through either:

- Containment actions, these lessen the likelihood of consequences of a risk and are applied before the risk materialises

- Contingency actions, these are put in action after the risk has happened, thus reducing the impact.

Terminating the risk. Doing things differently and therefore removing the risk. This is particularly important in terms of project risk.

Transferring the risk. Sometimes a risk can be transferred to a third party, for example via insurance or by arranging for a third party to take the risk in another way.

Taking the opportunity. This is not an alternative to any of the above, rather it is an option to be considered whenever tolerating, treating, or transferring a risk.

The cost of risk management and control of the risk should be proportionate to the risk that is being addressed. There is a need to;

- Identify existing controls and actions plans that are in place. Develop new controls and action plans where none exist.

- Identify and agree who will own the risk and who will manage the risks. The risk owner should have authority to implement and manage the controls.

When the existing controls and action plans have been identified, the risk can be re-assessed for likelihood and impact.

Step 4 Recording and Reporting Risks

Risks should be recorded on a risk register. The risk register template is appended at Annexe A to this framework.

The Authority maintains two levels of risk register, the Corporate Risk Register which is monitored by Internal Audit and presented to the Audit Committee and Operational Risk Registers which are maintained at a service level.

Circumstances and business priorities can, and do change, and therefore risks, opportunities and their circumstance need to be regularly reviewed. Some risks will move down the priority rating, some may leave, and new risks will be identified.

Conclusion

The risk management framework (the four steps of risk management) is a continuous cycle designed not only to identify, assess, manage and review risks, but also to support business objectives. The implementation of this framework will support the Authority in recognising risk and minimising its impact through all areas of service provision.

APPENDIX 1

ANNEXE A

Item Ref	Risk	Implication	Level of Impact	Likelihood	Rating	Previous Rating	Direction of Risk	Strategy	Owner	Mitigating Actions	Post Mitigation Impact	Post Mitigation Likelihood	Post Mitigation Rating